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Recommendations of the Board of Auditors

Follow-up report on the implementation of the recommendations of the Board of Auditors for the biennium 2002-2003*

Report of the Administrator

Summary

The present document contains an account of the steps taken by UNDP to address the recommendations made by the United Nations Board of Auditors (BOA) and documented in the report of the Board of Auditors, in connection with the financial report and audited financial statements of UNDP for the 2002-2003 biennium (A/59/5/Add.1). It updates the information provided in two earlier documents, the report on the implementation of the recommendations of the Board of Auditors for the biennium 2002-2003 (DP/2005/11) and the report of the Board of Auditors on the implementation of its recommendations relating to the biennium 2002-2003 (A/60/113), based on an update provided by UNDP in April 2005. In line with Executive Board decision 2005/8, this report also provides indications of the priority accorded to each recommendation as well as the time frame for its implementation. A separate annex, available at the website of the Executive Board secretariat, provides details of the audit recommendations and the current implementation status of each.

As at 15 October 2005, all 80 recommendations made by BOA either had been implemented (65 per cent) or were in the process of being implemented (35 per cent). In addition, UNDP has implemented tools and processes to promote transparency in reporting and reemphasize accountability and responsiveness to audit recommendations. These include the implementation of a web-based audit recommendation-tracking dashboard (http://audit-dashboard.undp.org) to manage corporate audit issues, and the establishment of a quality assurance function within the Bureau of Management (BOM) to analyze systemic issues arising from audit observations.

Elements of a decision

The Executive Board may wish to note the progress made by UNDP in the implementation of the recommendations of BOA for the biennium ended 31 December 2003 and the specific management efforts to improve transparency and promote managerial accountability and ownership in dealing with audit recommendations.

* The compilation of data required to present the Executive Board with the most current information has delayed submission of the present document.

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I. Introduction

1. The present document contains an updated account of the steps taken systematically and progressively by UNDP to address the recommendations raised by BOA as documented in Report of the Board of Auditors on the financial report and audited financial statements of UNDP for the biennium ended 31 December 2003 (A/59/5/Add.1). It provides a further update to information provided in two earlier documents:

(a) the report on the implementation of the recommendations of the Board of Auditors for the biennium 2002-2003 (DP/2005/11), dated 10 November 2004 and presented by UNDP Administrator at the first regular session of the Executive Board in January 2005; and

(b) the report of the Board of Auditors on the implementation of its recommendations relating to the biennium 2002-2003 (A/60/113), dated 12 July 2005 and presented by BOA as part of a consolidated report to the sixtieth session of the General Assembly (item 112), based on an update provided by UNDP in April 2005.

2. In line with Executive Board decision 2005/8, this report also provides indications of the priority accorded to each recommendation as well as the time frame for its implementation. The present document is organized into two sections:

(a) Management overview of implementation status. This provides a management summary of key audit recommendations raised by the UNBOA with updates on key issues.

(b) Processes and tools implemented to manage and track audit implementation status. This provides an overview of the tools and processes in place to analyse, track and manage external audit recommendations and corporate audit issues at UNDP.

3. The paragraph references in the following paragraphs are from the original BOA audit document (A/59/5/Add.1), the UNDP financial report and audited financial statements for the biennium ended 31 December 2003 and report of the board of auditors.

II. Management summary: audit implementation status

4. The Administrator is pleased to report that all 80 recommendations made by the Board of Auditors either have been implemented (65 per cent) or are in the process of being implemented (35 per cent). There is no recommendation that has yet to be implemented. As at September 2005, BOA has validated the implementation status of 13 of the recommendations (16 per cent). The remaining items are being validated progressively by BOA as a lead-in to their audit of UNDP financial statements for the current biennium. A separate annex, available at the website of the Executive Board secretariat, provides details of the audit recommendations and the current implementation status of each, listed according to category.

5. To permit systemic analysis, the audit recommendations are clustered into categories and sub-categories. The major audit observations (61 per cent) are in the following key areas: financial management (18 per cent); audit management (14 per cent); Information and communications technology (ICT) management

(10 per cent), treasury management (10 per cent) and procurement management (9 per cent).

Overview of implementation status by category

	Implementation status			
Category	**Implemented**	**In progress**	**Grand total**	**Percentage of total**
Admin. management	1		1	1%
Asset management	3		3	4%
Atlas project management	3	2	5	6%
Audit management	6	5	11	14%
Corporate risk management		4	4	5%
Financial management	8	6	14	18%
HR management	5		5	6%
ICT management	5	3	8	10%
Inter-agency harmonization	2		2	3%
Internal control management	3	2	5	6%
Others	1		1	1%
Procurement management	4	3	7	9%
Project management	1		1	1%
Treasury management	7	1	8	10%
NGO/NEX audit	3	2	5	6%
Grand total	**52**	**28**	**80**	100%
Percentage of total	65%	35%	100%	

		Priority				
Implementation status	**Category**	**0 High**	**1 Medium**	**2 Low**	**Grand total**	**Percentage of total**
Implemented	Admin. management		1		1	1%
	Asset management	2	1		3	4%
	Atlas project management		3		3	4%
	Audit management	1	5		6	8%
	Financial management		8		8	10%
	HR management		5		5	6%
	ICT management		5		5	6%
	Inter-agency harmonization		2		2	3%
	Internal control management		3		3	4%
	Others		1		1	1%
	Procurement management		4		4	5%
	Project management		1		1	1%
	Treasury management	1	6		7	9%
	NGO/NEX audit	1	2		3	4%
Implemented total		5	47		52	65%
In progress	Atlas project management		2		2	3%
	Audit management	1	4		5	6%
	Corporate risk management	1	3		4	5%
	Financial management		6		6	8%
	ICT management		3		3	4%
	Internal control management		2		2	3%
	Procurement management		3		3	4%
	Treasury management			1	1	1%
	NGO/NEX Audit		2		2	3%
In progress total		2	25	1	28	35%
Grand total		7	72	1	**80**	100%

A. Internal audit and corporate risk management

6. This group includes recommendations relating to internal audit management (11), non-governmental organization/national execution (NGO/NEX) audits (five), and corporate risk management (four). There are four high-priority and 16 medium-priority recommendations in the group. Nine of the recommendations in this category have been implemented.

7. There have been major achievements in this area. These included the re-establishment of the Management Review and Oversight Committee (MROC) and the drafting of the terms of reference and review of the 2005 strategy and work plan of the Office for Audit and Performance Review – OAPR (paragraph 210); the filling of posts vacated following the last reprofiling exercise, with the exception of two national officer posts in Bratislava (paragraph 223); the institutionalization of semi-annual reporting on the audit implementation rate as a performance indicator on the balanced scorecard (paragraph 240) and the conclusion of external and independent reviews of internal controls within the Atlas system (paragraphs 157 and 189).

8. Key initiatives in the pipeline include the multi-layered approach to formalizing risk management in UNDP as part of its organizational culture in 2006 (paragraph 54). Other key initiatives included strengthening the roles of the MROC (paragraphs 212 and 229); the planned training of managers in corporate risk management; building risk management principles into the programme management system; audit planning and outcome reporting; the implementation of an audit report tracking system to better monitor compliance with audit recommendations and reasons for delay, if any (paragraph 246); and the progressive rollout of audit exception reports (paragraph 193). In line with the decision taken by the October 2005 meeting of the High Level Committee on Management, UNDP will participate actively and will leverage the outcome and recommendation of the United Nations corporate governance working group to be formed (paragraph 252).

9. In addition, OAPR is exploring enhancements of the existing comprehensive audit database system to be used by project staff for NEX audit recommendations in 2006 (paragraph 103) and the inclusion of risk assessment and priority rating of the outcomes of NEX audits (paragraph 111).

B. Financial and internal controls management

10. Within this group are recommendations that relate to financial management (14) and internal control management (five). Eleven of the 19 recommendations have been implemented so far.

11. Significant milestones achieved in this area included the operationalization of the general ledger module in Atlas and the interface between the IMIS payroll and the Atlas general ledger (paragraph 168); implementation of the encumbrance accounting function in Atlas to manage unliquidated obligations (paragraph 70), the formalization of internal control framework guidelines, including approval rules, in May 2005 (paragraphs 160 and 178), followed by a series of webcast trainings on UNDP financial rules and regulations (paragraph 185) and the enhancement of the project module, supported by the rollout of th e revised UNDP Programming Guide in August 2005, to facilitate the monitoring of financial and project implementation

status (paragraph 303). Other achievements include the rollout of inter-module reconciliation reporting to support reconciliation between the treasury module and the accounting records (paragraph 288); implementation of system restrictions on changes to 'remit-to-vendors' (paragraph 180); and the rollout of the Atlas user's security management system in August 2005, to help enforce compliance with the roles described in the internal control framework (paragraph 164).

12. UNDP is continuing with a diligent review of funding mechanisms for end-of-service and post-retirement liability (paragraph 77). It will continue to follow up with outstanding NEX advances; trust funds with deficit positions (paragraphs 89 and 315); inactive funds (paragraph 320); unapplied deposits (paragraph 63); and reconciling items in IMIS (paragraph 59). UNDP will continue to leverage its own Atlas 'data quality dashboard' to proactively manage data errors and potential risks associated with unapplied deposits, matching exceptions, bank reconciliations and errors.

13. Initiatives in the pipeline for 2006 include the rollout of the accounts receivable aging report (paragraph 73); proposed changes to the financial statements to improve closure and presentation (paragraph 57); the implementation of compensating controls for voucher approvals involving multiple budget-holders (paragraph 183); and the implementation of audit trails in Atlas for key business processes (paragraph 199).

C. Treasury management

14. Seven of the eight recommendations relating to treasury management have been implemented. These include implementation of the risk management module in Atlas to monitor credit and market risks (paragraph 277); the revision of guidelines and procedures to better manage risks associated with counter party exposure (paragraph 282); the documentation of procedures for valuating foreign exchange, bonds, and other instruments (paragraph 285); the revision of the treasury policy manual for headquarters operations (paragraph 256); a management review of delegation of levels of authority in treasury (paragraph 274); and the rollout of guidelines on bank reconciliations, supplemented by a series of audio training sessions to help country offices understand the bank reconciliation process and the use of the bank reconciliation report in their efforts (paragraph 173). In addition, eight recommended investment reports have been implemented (paragraph 260).

15. In line with the BOA recommendation, UNDP is currently exploring technical solutions to switching from the current Excel-based country office cash position worksheets system to leverage features available in Atlas (paragraph 267).

D. Human resources management

16. All five recommendations relating to human resource management have been addressed. This included the successful pilot launch of the UNDP learning management system in March 2005 (paragraph 347) and the subsequent global rollout to support our learning agenda. In addition, managers have been and will continue to be reminded to monitor performance of special service agreements (SSAs) in accordance with the guidelines approved in July 2004 (paragraph 328).

17. Regular performance reviews for appointments of limited duration (ALDs) who have served at least six months have been institutionalized in accordance with

the revised ALD guidelines, approved in September 2005, and the approved guidelines for results and competency assessments (paragraph 333). Documentation requirements for the ad hoc panel meetings for ALDs has been aligned with the requirements for the 100 and 200 series (paragraphs 331 and 335). By June 2006, all prescriptive content for the human resource management should be available on the prescriptive content user guide website.

E. Procurement, asset and administrative management

18. Of the eleven recommendations, seven relate to procurement management, three to asset management and one to administrative management. So far, eight of the recommendations have been implemented.

19. Key achievements in the procurement area include resolution of the dispute with UNICEF outstanding since late 2004 (paragraph 371); the incorporation of UNDP policy on fraud prevention into its revised Procurement Manual (paragraph 379), approved in August 2005; the adoption of benchmark prices by the Inter-Agency Procurement Services Office (IAPSO) to ensure value-for-money procurement (paragraph 340). To improve its contracting process and promote greater productivity and efficiency, UNDP implemented electronic online Advisory Committee on Procurement (ACP) approval throughout UNDP in January 2005 (paragraph 309), and piloted the launch of the regional online ACP process in the Regional Bureau for Latin America and the Caribbean RBLAC in March 2005.

20. In the pipeline are the plans for the formalization of implementation procedures to support the 'green procurement' policy (paragraph 362) by June 2006; the revision of the SSA guidelines to align them with current procurement policies (paragraph 326); and implementation of a strategic sourcing module in Atlas to institutionalize supplier performance evaluation (paragraph 312).

21. In line with audit recommendations, UNDP has made the required adjustments to assets in excess of $1,000, and the records have been verified by country offices (paragraph 33). The implementation of the asset module in Atlas allows UNDP to record additions and asset disposals in accordance with the revised policy (paragraph 36). In addition, results of two measurement and verification exercises conducted in 2002 and 2003 indicated overall savings resulting from the retrofitting of the Forty-Fifth Street Building (paragraph 358).

F. ICT management and Atlas project management

22. Of the eight recommendations relating to ICT management, five have been implemented. Of the five recommendations relating to Atlas project management, three have been implemented.

23. Key milestones achieved include the approval of the updated ICT strategy for 2004-2005 by the UNDP Strategic Management Team in the third quarter of 2004 (paragraph 118); the formalization of service-level agreements (SLAs) with the outsourcer; implementation of system performance monitoring tools to monitor system performance in accordance with signed SLAs (paragraph 141); the implementation in July 2004 of the Atlas change control management framework to manage application changes (paragraph 204); and the review of the Atlas wave I project status update and expenditure by the Executive Team (paragraph 133).

24. Other achievements include the implementation of a training and certification policy for user query design and testing (paragraph 147); the completion of an internal assessment of computer risks in the Treasury Division (paragraph 279); documentation of the Atlas helpdesk escalation process (paragraph 150); the update of the data conversion strategy document; and implementation of the Atlas data quality dashboard to manage data errors proactively (paragraph 144).

25. Key initiatives in the pipeline include conducting a second Atlas disaster recovery testing before end of 2005 (paragraph 136); full migration of financial transaction processing for UNDP-Brazil into Atlas by June 2007 (paragraph 196); the formalization of SLAs with our United Nations partner organizations for new development and post-production support for Atlas (paragraph 352); progressive adoption of IT Infrastructure Library standards within our organization in 2006 (paragraph 122); and the formalization of an approach to measuring quantitative Atlas-related benefits (paragraph 131).

G. Project management, inter-agency harmonization, and others

26. All four recommendations relating to project management (one) and inter agency harmonization (two) and others (one) have been implemented. These include alignment of programming level with financial commitment in UNCDF (paragraph 26); closure of operationally inactive projects in Atlas (paragraph 306); and enhancement of Atlas to better track payment made on behalf of United Nations partner organizations, reducing reconciliation problems with inter-agency transactions (paragraph 86). In addition, the timeline and the way forward for UNDP, UNFPA and UNICEF joint implementation of results-based budgeting were presented to an informal joint meeting of the respective Executive Boards in September 2005 (paragraph 297).

III. Tools and processes used to address corporate audit issues

27. In line with ongoing organizational efforts to promote greater transparency and reemphasize managerial accountability and responsiveness to audit recommendations, UNDP has initiated the following initiatives:

(a) Implementation of an audit recommendation tracking dashboard (http://audit-dashboard.undp.org); and

(b) Establishment of a quality-assurance function with responsibility for working with country offices and the audit office to address emerging issues proactively, to analyse trends and to address systemic issues.

28. The audit recommendation-tracking dashboard (see illustration on page 8) is part of the overall strategy for a more effective, transparent system for tracking and managing audit recommendations.

29. The audit recommendation tracking dashboard will become (a) a single point for tracking and managing all corporate audit issues and their implementation status; (b) a management tool to provide department heads with a broader perspective of the different audit findings, particularly those specific to their divisions, promoting greater transparency and accountability; (c) a reporting tool with which managers will provide online updates of the implementation status of audit recommendations, replacing the previous spreadsheet-based approach to tracking audit recommendations; and (d) a common website accessible by country offices to view

the implementation status of audit issues raised by internal and external auditors for further deliberation and review at the headquarters level. This will help complete the follow-through in terms of corporate issues raised through country office audits.

Audit recommendation tracking dashboard

30. In line with the increasing focus on improving organizational effectiveness and responsiveness to audit recommendations, UNDP recently established the quality assurance function currently embedded in the structure of BOM. Integrated into the internal audit and business divisions, regional bureaux and country offices, the

quality assurance function complements internal and external audits in the following ways:

(a) Assists OAPR in identifying systemic trends and emerging corporate issues based on the results of the country office audit;

(b) Assists the respective business divisions and content experts in understanding the root causes of compliance issues as reported by the internal and external audit team. This may require a review and/or enhancement of our underlying system (Atlas), a review of existing business policies and procedures (prescriptive content), a review of technical issues indirectly affecting business continuity or operational effectiveness, and/or a review of user training and staff competency to meet emerging challenges;

(c) Assists headquarters departments and regional bureaux in following up on corporate policy, procedures or programmatic issues that require further deliberation at the corporate level to mitigate organizational risks or address audit observations raised;

(d) Establishes and maintains the UNDP quality management system, introducing structures and processes. This includes overseeing implementation and updates of prescriptive contents to make sure that operational standards effectively support UNDP operations based on lessons learned in, coordination with policy units; providing input to UNDP systems development, internal communication and learning strategies; reviewing input from various feeder systems with the objective of addressing emerging systemic issues proactively. Key feeder systems include statistical and narrative reports from the Atlas helpdesk; longitudinal analysis of the results from the Atlas data quality dashboard; review of electronic user feedback on the management practice network; and review of training evaluation reports and relevant user surveys.